

**LOCAL AGENCY FORMATION COMMISSION  
COUNTY OF SAN BERNARDINO**

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**DATE:** APRIL 9, 2008

**FROM:** KATHLEEN ROLLINGS-McDONALD, Executive Officer  
MICHAEL TUERPE, LAFCO Analyst

**TO:** LOCAL AGENCY FORMATION COMMISSION

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**SUBJECT:** **AGENDA ITEM #7 – ITEM (B)** -- Preliminary Budget Review for Fiscal Year 2008-09

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**BACKGROUND:**

At this hearing, the Commission will begin its annual budget review for the upcoming Fiscal Year. As all are aware, the grip of the downturn in the economy is affecting all levels of our customers – the County, the Cities/Towns, Special Districts, landowners, and the citizens. This situation requires that for the upcoming year the Commission implement cost containment measures to limit the growth of expenditures. The measures proposed are big and small, examples of which are shifting non-mandatory equipment purchases to the next fiscal year, reducing the distribution of paper materials for attachments to staff reports mailed to interested and affected parties, among other pursuits. This will limit the growth of the Budget for total expenditures to less than 1% over the prior year's budget.

However, included in the budget projection for Fiscal Year 2008-09 is the provision of a General Reserve amount equal to 10.8% of total expenditures. During the review of the Commission's Annual Audit, Staff indicated that the budget presented to the Commission for the upcoming Fiscal Year would provide a minimum 10% reserve of anticipated expenditures for the year. In order to limit the burden of this increase to the entities which are mandated to fund LAFCO operations, staff is recommending a 10% overall increase for LAFCO filing fees to recover a higher percentage of costs for processing of applications. However, it is currently anticipated that the bulk of the Commission's activities will be addressing the completion of the Municipal Service Review/Sphere Update program required by statute. State law does not allow for charging fees for this process so only direct costs will be recovered for the processing.

The budget as presented anticipates only eight (8) proposals which will be charged the full complement of fees for processing.

Staff has requested that the County Auditor Controller apportion the net costs for LAFCO operations to the County, Cities/Towns and Independent Special Districts based upon the proposed budget. This information will be provided as a part of the materials forwarded to the County, Cities/Towns and Independent Special Districts for their review and comment as required by Government Code Section 56381 and is included as Attachment #2 for Commission information.

In the past, Special Districts have complained that the apportionment provided to them during the budget review process is substantially different than the billing they receive on July 1<sup>st</sup> of each year. For our smaller independent special districts this has caused concern as their budgets are also set prior to that billing date and their revenues are always tight. This occurs due to the requirements in State law that the "most current" report of the State Controller is to be used for apportionment purposes. Sometimes new reports are issued by the State Controller during the month of June, after the mandatory final budget adoption date of June 1 for the Commission. This concern is not unique to San Bernardino County. San Diego LAFCO has established a policy that the apportionment identified during the preliminary budget review, using the then most current State Controller's report, will be the apportionment for the upcoming year. Staff is proposing that the Commission adopt a similar practice -- that the most current State Controller's report available at the time that the proposed budget is circulated for review and comment shall be utilized for apportionment purpose, regardless if another report is issued prior to the July 1<sup>st</sup> billing date.

Staff's approach in preparing the Budget for the upcoming Fiscal Year was to provide for the following objectives:

- 1) Make available the funding necessary to complete the mandated Municipal Service Reviews/Sphere of Influence updates that were required to be completed by January 1, 2008. The processing of these activities allows for only a recovery of direct costs (environmental processing, notifications, legal advertising) but no filing fees for recovery of staff time.
- 2) Identify the funding and staffing necessary for processing of the proposals for jurisdictional change in a thorough, accurate and expeditious manner while containing costs wherever possible.

**WORKLOAD AND STAFFING CONSIDERATIONS:**

**FISCAL YEAR 2007-08**

Staffing levels for Fiscal Year 2007-08 were expanded to include an additional Deputy Clerk to the Commission. At the same time the Commission abandoned efforts to partner with the County Economic Development Department in funding a position to provide mapping and demographic research services. These activities are currently outsourced to the County's Geographic Information Management System (GIMS) and funded through the Services and Supplies Accounts. Other outsourced activities include environmental processing through the Commission's Environmental Consultant.

The estimated year-end expenditures for salaries and benefits are \$729,813, \$35,872 below budgeted amount. One-time costs included in the FY 2007-08 salaries and benefits categories were the \$12,461 in termination benefits for Debby Chamberlin's retirement. However, the filling of the Clerk to the Commission/Office Manager and Deputy Clerk position at salaries less than the top tier of their respective salary schedules allowed for the majority of the identified salary savings.

Pursuant to the provisions of the Commission's Human Resources Policies and Procedures, merit increases are proposed for three of the Commission's staff – both LAFCO Analysts and one Deputy Clerk to the Commission. The other two positions, Clerk to the Commission/Office Manager and Deputy Clerk, are still in their probationary periods and are therefore not included in this discussion. The merit payments for the following three employees are recommended as follows:

LAFCO Analyst Samuel Martinez	2.5% for a total cost of \$1,580
LAFCO Analyst Michael Tuerpe	2% for a total cost of \$1,174
Deputy Clerk to the Commission Angela Schell	2% for a total cost of \$943

These payments are to be made from Account 1000 Merit Increases and have been identified in the budget calculations.

The Services and Supplies categories anticipate expenditures in excess of budget authority. This occurred due to the extraordinary publication expenditures for the County Fire Reorganization Protest proceeding (Legal ads totaling \$15,000). These costs are recoverable; however, the payments cause the series to exceed appropriation authority. Staff is recommending that the Commission transfer \$10,000 from Account 1010 (Regular Salaries) to Account 2085 (Legal Notices) to provide for sufficient appropriation authority to the end of the Fiscal Year.

One policy item discussion is that Staff is proposing the upgrade of one LAFCO Analyst to the Senior LAFCO Analyst position, Samuel Martinez, as a career ladder change. This position description was authorized by the Commission during its 2003 overall review of job descriptions and classification conducted by Alcock and McFadden (copy

is included as Attachment #3). At the time, no salary range was provided. Staff has reviewed the CALAFCo 2006 Survey of Salaries to compare similar positions and their salary. The information which follows provides for the County name, title and the salary taken directly from the Survey. The last column has been calculated by Staff to reflect the 2006-07 and 2007-08 cost-of-living increases that were provided to LAFCO staff:

COUNTY	POSITION TITLE	2006 SALARY	3% Increase for 2007 and 2008
Los Angeles	Senior Government Analyst	\$71,864	\$76,241
Monterey	Senior Analyst	\$83,799	\$88,902
Orange	Project Manager	\$60,000 -- \$105,000	\$63,654--\$111,395
Riverside	Senior Local Government Analyst	\$62,000 -- \$81,000	\$65,776 --\$85,933
San Diego	Chief Policy Analyst	\$62,785 -- \$86,235	\$66,609 -- \$91,487

Using these comparisons, it is proposed that the Salary Range be established as \$64,792 to \$82,784 (for 07-08) with the corresponding cost-of-living salary adjustment after determinations made by the County are applied. The basis for this recommendation is its provision of a career ladder within LAFCO which recognizes the assumption of more responsibility for administering environmental review, direct coordination with consultants, as well as the assumption of responsibilities related to coordination of digital mapping and verification of map and legal documents needed for proposal processing. It is being recommended that the upgrade in position take effect following adoption of the final budget at the May hearing. Pursuant to provisions of the Commission's Human Resources Policies and Procedures, a minimum 5% salary increase will be provided, \$69,742 per year, for an estimated additional cost for the current fiscal year of \$947.80. Budget projections for Fiscal Year 2008-09 have been made utilizing this anticipated upgrade for the full year.

**FISCAL YEAR 2008-09**

In the Salaries and Benefits categories for Fiscal Year 2008-09 a number of changes are anticipated. They are identified as follows:

- The salary and benefit amounts within the Fiscal Year 2008-09 budget are estimated at this time due to the lack of completion of County negotiations with its employee groups. The Commission's benefit package is tied to that provided to County Exempt employees and pursuant to actions taken by the Commission at its March hearing, the cost-of-living adjustment for all employees, including the Executive Officer, will mirror that provided to exempt employees. Therefore, the budget materials provided in this document use estimates of a 4% cost-of-living increase (COLA), the outer limit of anticipated negotiations, and no changes to benefits.

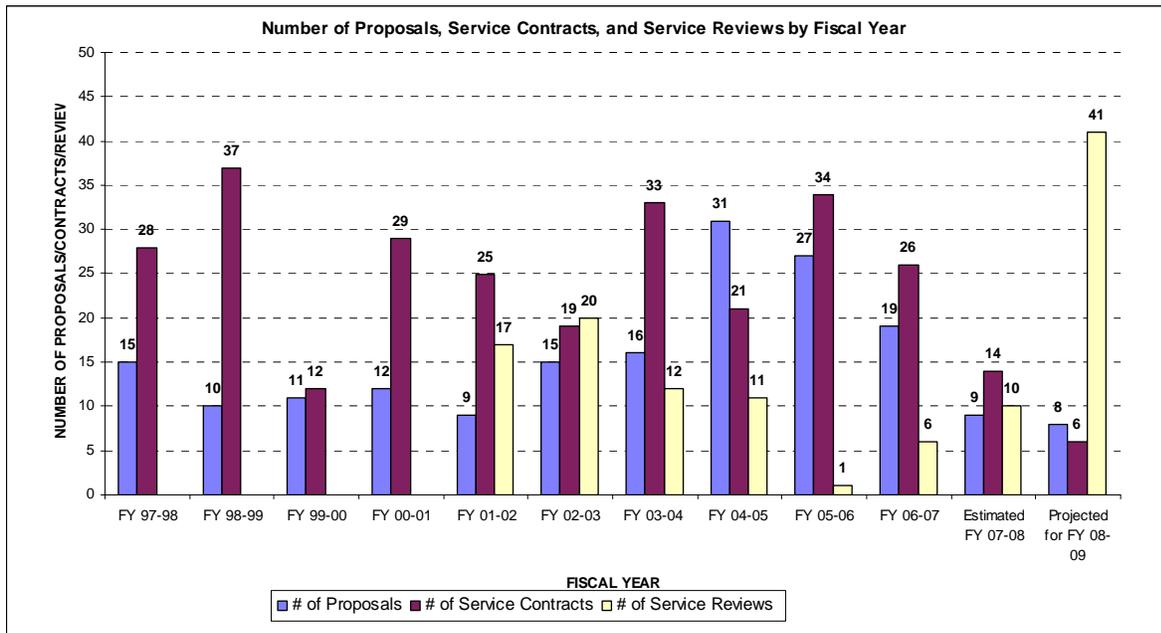
If the final negotiations determine a lesser percentage cost-of-living increase, the salary and benefit categories would have overall reductions of:

3.5% COLA	Reduction of \$3,236
3.0% COLA	Reduction of \$6,410
2.5% COLA	Reduction of \$9,614

- In addition, Fiscal Year 2008-09 will include 27 pay periods, rather than the standard 26. Since LAFCO staff is paid bi-weekly, this situation occurs every ten years. Payment for the additional pay period increases the salaries and benefits series by \$29,816 (based upon the 4% COLA) for the Fiscal Year.

Workload indicators show a marked decrease in actual jurisdictional change applications for the past year and the staff is forecasting the same for the upcoming fiscal year. However, as LAFCO staff has outlined in the mid-year and quarterly reports to the Commission, the completion of the Municipal Service Review/Sphere of Influence Update process mandated by State law must be accomplished. State law directed that this process be completed by January 1, 2008; however, the Commission acknowledged the deferral of this program in order to complete processing of the significant applications for change (i.e., County Fire Reorganization, CSD formation, among others).

The chart below outlines past, current and projected activity levels:



Of importance in this discussion is that the 41 Municipal Service Reviews required to be completed during this period do not provide for filing fees, only recovery of direct costs are charged back to the agencies. The calculations for proposals anticipated to be received in the upcoming Fiscal Year include: 7 jurisdictional changes (three over 150 acres, two 25 to 150 acres and one less than 25 acres and one City island), one sphere amendment and one major and five minor out-of-agency service contracts.

Additional workload responsibilities include the Executive Officer's participation as a member of the CALAFCO Legislative Committee and conference and workshop planning activities.

### **Fiscal Year 2009-10**

As has been the practice, a forecast for Fiscal Year 2009-10 has been provided. The forecast for this Fiscal Year carries forward existing practices and anticipated workloads. However, it also identifies funding for Account 1045 Termination Payments and increased salary payments associated with the anticipated retirement of the Executive Officer in March 2010.

### **SERVICES AND SUPPLIES:**

#### **FISCAL YEAR 2007-08**

As the Commission is well aware, Fiscal Year 2007-08 has been extraordinary for the applications considered, such as the formation of the Phelan Pinon Hills CSD and the processing of the County Fire Reorganization. LAFCO staff has, on more than one occasion, identified the County Fire Reorganization as the most significant consideration ever presented to the Commission. It is also the most significant in terms of the costs for processing which affects the 2000 Series of Accounts for Services and Supplies for this Fiscal Year. At present, current expenditures within the Services and Supplies categories are estimated to exceed authorization by approximately \$8,000. Factors which contribute to this situation are identified as:

- Legal Ads for Commission considerations and protest hearings, Account 2085, are currently estimated to exceed its budgeted amount of \$15,000 by more than \$32,000 for a year-end cost of \$47,478. The year-end cost includes legal ads for the Protest Hearing for the County Fire Reorganization of \$15,580 and environmental processing of \$4,232. Protest Hearing and Environmental Processing ad costs are recoverable from applicants and represent slightly more than \$22,000 at this time. As of the date of this report \$9,900 has been recovered with \$10,000 to be billed and anticipated to be paid by year-end.
- Account 2424 (Environmental Consultant costs) is anticipated to have a year-end cost of \$37,209 while its budgeted amount is \$27,000. These costs are also recoverable from the applicants for proposals for change and as direct costs are recoverable for Municipal Service Reviews.
- Account 2445 (Other Professional Services), which includes costs for Commissioner stipends, Registrar of Voter services, County Surveyor

charges, Human Resource Consultant Alcock & McFadden costs, and for this fiscal year the costs associated with Ms. Chamberlin's contract for training and support services, will exceed its budget authorization of \$41,600 by slightly less than \$12,000. The year-end estimate for this account is \$53,109.

- Account 2400 (Legal Counsel) was budgeted for expenses of \$122,480 but is anticipated to expend only \$85,400, a savings of \$37,080.

Staff is recommending that \$10,000 in appropriation authority be transferred from the Salaries and Benefits Series, Account 1010 – Regular Salaries, which has excess appropriation authority to Account 2085, without affecting the total budget authority.

Environmental Impact Report for LAFCO 3076 (Consolidation of San Bernardino Valley Water Conservation District and San Bernardino Valley Municipal Water District)

A unique expenditure/revenue item has occurred this Fiscal Year in that the Commission is the lead agency for the preparation of an Environmental Impact Report for processing of LAFCO 3076 (title identified above). San Bernardino Valley Municipal Water District, the applicant, is responsible for the costs for processing. The total contract cost is estimated at \$299,533. Revenues for this process are deposited in Revenue Account 9660 and expenditures are processed from Revenue Account 9990; therefore, the activity is not shown in the standard services and supplies accounts. Staff currently anticipates that all payments will be processed during the current Fiscal Year.

**FISCAL YEAR 2008-09**

Staff is recommending a total Services and Supplies budget of \$376,495, a reduction of \$38,275 from Fiscal Year 2007-08. In reference to the expense categories within the overall Services and Supplies section, Staff is proposing the maintenance of current levels of support for on-going activities, such as website activities, maintenance of city and district digitized maps, etc., while also providing the allocation of resources to complete the Municipal Service Review/Sphere of Influence mandated program encompassing the consideration of 41 sphere updates and Municipal Service Reviews for 13 distinct communities. Staff anticipates a reduction in postage costs and reproduction charges due to utilization of CD copies rather than hardcopy for document distribution for staff report attachments and initial filings.

As a part of the budget preparation, Staff reviewed the implications of the office lease, which has a termination date of June 30, 2009. In the discussions with the Building Manager, issues regarding expansion of the office space and/or remodeling were reviewed as a means to better accommodate the staff. The presentation made by the Building Manager, outlined in Attachment #4, is to:

- Amend the lease to an end date of June 30, 2013 (an additional four years) for 2,656 of rentable space (an increase of 260 square feet in an additional office) under the same escalation factor of 3% per year,
- Building owner will provide for the remodeling, painting, and recarpeting of the office for no direct charge to the Commission. The lease rate will be \$1.58 per sq. ft for a monthly cost of \$4,196 beginning on July 1, 2008, increasing by 3% for each following year. Fiscal Year 2008-09 total cost would be \$50,352. Without the expansion and lease extension, the cost would be \$1.58 for 2,396 sq. feet for a monthly cost of \$3,787 and a total annual cost of \$45,444. Our current lease expires on June 30, 2009. If the lease extension proposed is not accepted, staff will need to begin to review options for office space for FY 2009-10 and beyond during the upcoming year.

The per square footage charge is still below rates of other Southern California LAFCOs in leased office space (Riverside \$2.00 per sq. ft. and Los Angeles \$2.25 per sq. ft.) and below that charged by the County of San Diego to San Diego LAFCO (\$1.63 per sq. foot). The cost for remodeling the existing office space to better accommodate staff was estimated to be slightly less than \$8,000, if done outside the lease extension proposed by Building Management. Staff is requesting authorization from the Commission to negotiate extension of the lease under the terms identified.

In addition, staff is requesting Commission authorization to extend the Video Production Contract with the City of San Bernardino. Attachment #4 to this report provides for the Contract Service Agreement for \$300 per hearing, an increase of \$75 per hearing on Fiscal Year 2007-08.

## **REVENUES:**

### **FISCAL YEAR 2007-08**

Revenue receipts during the current Fiscal Year have not met expectations due to the dramatic downturn in the economy which has translated into fewer applications submitted for processing. Fiscal Year 2007-08 saw the fewest number of proposals submitted since staff has tracked this statistic. However, cost recovery of billable items has accelerated to be sure that no proposal is completed until its charges are recovered and if possible that the monies are received during the Fiscal Year in which costs were accrued.

### **FISCAL YEAR 2008-09**

Staff anticipates that proposal filings for the upcoming Fiscal Year will remain depressed. Based upon changes proposed for the LAFCO Schedule of Fees, Deposits, and Charges, Staff is therefore projecting revenues of \$188,657. Interest income and other revenues add \$89,263 for a total of \$277,920 of revenues. This provides for a net

operating cost of \$1,050,000 to be divided into thirds of \$350,000 apportioned to the County, the 24 Cities/Towns and 53 Independent Special Districts.

This apportionment process will take place pursuant to the provisions of Government Code Section 56381 and is administered by the County Auditor/Controller-Recorder. As identified earlier in this report, staff is recommending that the Commission adopt the practice that the Auditor/Controller-Recorder use the State Controller Reports that provide the estimates during the preliminary budget review as the final reports. This will preclude a major change in the apportionment amounts and allow the various entities some security in their own budgeting processes.

**RESERVES AND CONTINGENCIES:**

The staff is proposing a contingency amount of \$25,000 (Account 6000) and is proposing a General Reserve (Account 6025) of \$126,739 which is 10.78 percent of total expenditures. As was discussed during the review of the Commission June 2007 Audit, a reserve of a minimum of 10% of expenditures would be provided for in the future. Should the use of these dollars be required, it will take an action by the Commission to transfer monies.

**CONCLUSION:**

The information contained in this report outlines and discusses the budget considerations for the Commission which provides for the following:

<b>ACCOUNT TYPE</b>	<b>FY 07-08 ADOPTED BUDGET</b>	<b>FY 08-09 PROPOSED BUDGET</b>
SALARIES AND BENEFITS	\$755,685	\$799,686
SERVICES AND SUPPLIES	\$414,770	\$376,495
RESERVES AND CONTINGENCIES	\$77,198	\$151,739
<b>SUBTOTAL</b>	<b>\$1,247,653</b>	<b>\$1,327,920</b>
FEE AND GENERAL REVENUE	\$230,488	\$277,920
<b>NET COST</b>	<b>\$1,017,165</b>	<b>\$1,050,000</b>

Staff believes that the Policy Items outlined in this report related to upgrade of staff position and expansion of the LAFCO office space and extension of lease terms are appropriate; therefore, staff is requesting Commission support of these items.

In addition, it is the staff position that the balance of expenditures and revenue items will provide for fulfillment of the Commission's ongoing core obligations for processing of proposals and fulfilling State mandates. If the Commission supports the staff's position, it is recommended that, pursuant to the provisions of Government Code Section 56381, the Commission adopt the Proposed Budget as outlined and direct staff to forward this document to the County, the Cities and Towns, and the Independent Special Districts for their review and comment. Staff is also recommending that the final hearing for

adoption of the budget be scheduled for May 21, 2008 at which time the comments of the public and agencies the Commission serves will be considered.

**RECOMMENDATION:**

The staff recommends that the Commission take the following actions:

**FOR FISCAL YEAR 2007-08 (CURRENT):**

1. Authorize Merit Increases as identified for LAFCO Analyst (2.5%), LAFCO Analyst (2%) and Deputy Clerk to the Commission (2%) for a total cost of \$3,697;
2. Upgrade of LAFCO Analyst Samuel Martinez to Senior LAFCO Analyst establishing the Salary Range as \$64,792 to \$82,784 (equivalent County Range of 66) and placement at Step 3 in the salary series; and,
3. Transfer funding of \$10,000 from Account 1010 (Salaries) to Account 2085 (Legal Advertising) to compensate for increased costs due to legal advertising, notice provisions and other requirements within the 2000 Services and Supplies categories during the Fiscal Year.

**FOR FISCAL YEAR 2008-09:**

- 1) Identify that LAFCO staff members shall receive the same cost-of-living increase provided to County Exempt Employees. Staff will return to the Commission with an Agenda Item outlining the changes and providing a resolution to amend the existing Benefit Plan, if required, once the County has determined these changes for its exempt employees;
- 2) Policy Items for FY 2008-09 including directions to staff:
  - a) Authorize LAFCO staff to negotiate the terms to extend the lease of office space located at 215 North "D" Street, Suite 204, in San Bernardino until June 30, 2013 and authorize the expansion by 260 square feet (single office) with the remodeling, painting and recarpeting at no extra charge to LAFCO;
  - b) Authorize the Executive Officer to sign the contract with the City of San Bernardino for video production of Commission hearings Production Support Agreement for 2008-09.
- 3) Schedule a public hearing for May 21, 2008 for the formal adoption of the Final Budget for Fiscal Year 2008-09 and direct staff to forward the Proposed Budget, as modified at this hearing, to all the independent special districts, cities, and the County for their comment pursuant to Government Code Section 56381.

/krm

Attachments:

1. Proposed Budget -- Spreadsheet and Narrative Related to Individual Accounts
2. Estimated Apportionment Distribution for City/Town and Special District Costs
3. Job Description Senior Analyst
4. Outline of Costs and Conditions for Expansion of LAFCO Office and Extension of Lease to June 2013
5. Contract Services Agreement with City of San Bernardino for Video Production Services